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Message Text

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ACTION EB-11

INFO OCT-01 DRC-01 IO-14 ISO-00 OMB-01 TAR-02 SP-03 SWF-02

AGR-20 AID-20 CIAE-00 COME-00 INR-10 LAB-06 NSAE-00

OIC-04 RSC-01 SIL-01 STR-08 TRSE-00 CIEP-02 CEA-02

AF-10 ARA-16 EA-11 EUR-25 NEA-14 L-03 H-03 INT-08

FEA-02 PA-04 PRS-01 USIA-15 (ISO) W
---------- 005777
R 131435Z MAY 74
FM USMISSION GENEVA
TO SECSTATE WASHDC 5699
INFO USMISSION OECD PARIS

UNCLAS SECTION 01 OF 02 GENEVA 2959

E.O. 11652: N/A
TAGS: EFIN, UNCTAD
SUBJECT: UNCTAD MEETING OF GOVERNMENT EXPERTS ON LDC
DEBT PROBLEMS, MAY 6-10

BEGIN SUMMARY: FIRST SESSION OF GOVERNMENT EXPERTS ON DEBT PROBLEMS OF LDCS PRODUCED LITTLE DIALOGUE BETWEEN CREDITORS (GROUP B) COUNTRIES AND REPRESENTATIVES OF DEBTORS (GROUP OF 77). GROUP 77 HAD LITTLEEXPERTISE ON SUBJECT, WERE POORLY ORGANIZED, AND HAD DIFFICULTY REACHING AGREEMENT AMONG THEMSELVES. GROUP 77 PROPOSAL ATTACHED TO FINAL REPORT AS ANNEX LARGELY THE WORK OF PAKISTANI DELEGATE WHO DID MOST GROUP 77 TALKING. PROPOSAL BASED ON PROPOSITION THAT THERE EXISTS GENERAL DEBT PROBLEM REQUIRING INTER-NATIONAL REMEDIES. REMEDIES INCLUDE GUIDELINES FOR DEBT RELIEF AND A NEW INSTITUTIONAL FRAMEWORK FOR MONITORING SUCH GUIDELINES. GROUP B COUNTRIES WERE WELL COORDINATED AND ATTEMPTED WITH LITTLE SUCCESS TO DRAW GROUP 77 INTO MEANINGFUL DISCUSSIONS. SEVERAL STUDIES WERE ASSIGNED OECD/IMF/UNCTAD FOR COMPLETION NEXT EXPERT SESSION SCHEDULED FOR DECEMBER. END SUMMARY.
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1. SALADIN OF SWITZERLAND ELECTED CHAIRMAN AND RAJAGOPALAN OF INDIA ELECTED RAPPORTEUR. FROM OUTSET IT CLEAR THAT GROUP 77 PERCEIVED PROBLEM AS POLITICAL RATHER THAN ECONOMIC. PAKISTAN AND GHANAIAN EXPERTS LARGELY SPOKE FOR GROUP 77. ALTHOUGH OTHER GROUP MEMBERS PRIVATE-LY EXPRESSED DISAGREEMENT WITH PAKISTAN VIEWS, IN PUBLIC THERE WAS NO DISSENT ON GROUP 77 PROPOSAL.

2. AGENDA CLOSELY FOLLOWED FORMAT OF THE 27 MARCH 1974 UNCTAD REPORT "DEBT PROBLEMS OF DEVELOPING COUNTRIES." COMMENTS ON REPORT'S THREE CHAPTERS FOLLOW.

3. CHAPTER I: THE ECONOMIC CONTEXT IN WHICH SIGNIFICANCE OF DEBT SERVICE TO BE EVALUATED.

A. GROUP 77:
- OBJECTIVE IS DEVELOP GENERAL GUIDELINES APPLI-CABLE ALL COUNTRIES (PAKISTAN)
- OIL PRICE INCREASE NO REASON ABANDON GENERAL APPROACH (PAKISTAN AND ALGERIA), ALTHOUGH COMMODITY PRICE RISES HAVE WORSENED LDC DEBT POSITION (KOREA).

B. GROUP B:
- ECONOMIC AND DEVELOPMENT CONSIDERATIONS HAVE BEEN TAKEN IN ACCOUNT IN PAST RE-SCHEDULINGS.
- GENERALIZED VIEW DEBT PROBLEM NOT REALISTIC. DIFFERENCES AMONG COUNTRIES EVEN CLEARER AFTER OIL/COMMODITY PRICE SURGE.
-UNCTAD DOCUMENT VIEWS DEBT SERVICE AS RESIDUAL TO BE COVERED ONLY AFTER OTHER FOREIGN EXCHANGE NEEDS MET.
- MODEL'S INFLOW/OUTFLOW ARITHMETIC TAKES NO ACCOUNT IMPROVEMENT IN GROWTH AND FOREIGN EXCHANGE EARNINGS ATTRIBUTABLE PAST LOANS.
-SHIFT FROM ODA TO COMMERCIAL LOANS IS PART NORMAL DEVELOPMENT PROCESS. BORROWER MUST SET LIMITS ON COMMERCIAL CREDIT.
MORE DATA REQUIRED ON EUROCURRENCY LENDING.
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- ODA GENERALLY FIXED AMOUNT. IF COMMERCIAL DEBT PROBLEM REQUIRES RESCHEDULING ODA, THIS DIVERTS ODA FROM POORER LDCS.

4. CHAPTER II. AVOIDING DEBT SERVICING DIFFICULTIES
A. GROUP 77:
- NEED NEW FORUM TO RESOLVE DEBT PROBLEMS TO ASSURE RENEGOTIATIONS DO NOT AFFECT DEVELOP-

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MENT ADVERSELY. (ARGENTINA)
- DOMESTIC MANAGEMENT FAILURES NOT PRIME FACTOR IN DEBT PROBLEMS. EXTERNAL FACTORS (SUCH AS TRADE BARRIERS) PLAY DECISIVE ROLE. (BRAZIL)
- DOMESTIC MANAGEMENT NOT A CONCERN OF EXPERT GROUP. (CHANA)

B. GROUP B:
- INTERNAL MANAGEMENT KEY TO AVOIDING DEBT PROBLEM.
- PROJECT EVALUATION VERY IMPORTANT.
- COLLECTION DATA ON AND SURVEILLANCE PRIVATE DEBT ESSENTIAL.
- SECRETARIAT REPORT OVER-EMPHASIZES ODA.
- CAPITAL MARKETS OPEN TO LDCS, AND TRADE/ MONETARY MATTERS SHOULD BE TREATED IN APPRO- PRIATE FORUMS.

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5. CHAPTER III: REMEDIAL MEASURES

A. GROUP 77:
GHANA - REAL PROBLEM IS NEED FOR ODA. TRADE

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RESTRICTIONS ALSO IMPORTANT. DEVELOPED COUNTRY INFLATION ERODING LDC FOREIGN EXCHANGE. (GHANA)

PAKISTAN - SUGGESTED DEBT MORATORIUM UNTIL AID TARGETS MET. THE 0.7 PERCENT TARGET SHOULD BE MET BY 1975, AID TERMS SHOULD BE HAR-

MONIZED, LOAN TYING CURTAILED, CAPITAL MARKETS ORIENTED TO LDC NEEDS, TRADE BARRIERS REMOVED, AND IMF FACILITIES TILTED TO LDC REQUIREMENTS. UNDER GUIDELINES TO BE ACTIVATED BY AN UNCTAD "SURVEILLANCE BODY," DEBT LIABILITIES SHOULD NOT EXCEED A CERTAIN PERCENT OF FOREIGN EXCHANGE EARNINGS, DEBT SERVICE SHOULD NOT GROW FASTER THAN EXPORT GROWTH, SHORT-TERM CREDITS SHOULD BE LIMITED

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TO QUICK PAYOFF PROJECTS, THERE SHOULD BE UNIVERSAL GUIDELINES ON GRANT ELEMENT OF TOTAL ASSISTANCE, AND THERE SHOULD BE A SPECIAL FUND TO FINANCE INTEREST ON DEBT.

GHANA - NOTED THAT DEBT CANCELLATION SHOULD NOT BE RULED OUT.

B. GROUP B:

- EXISTING ARRANGEMENTS HAVE WORKED WELL.
- DEBT RELIEF SHOULD NOT BE VIEWED AS METHOD OF AVOIDING BUDGETARY APPROPRIATIONS.
- AS LONG AS BENEFITS OUTWEIGH COSTS, DEBT CONTRIBUTES TO DEVELOPMENT.
- RECOGNIZE THAT EVEN WITH GOOD MANAGEMENT, BORROWER MAY NOT BE ABLE FORESTALL DEBT PROBLEMS. STANDARDIZATION OF GUIDELINE CRITERIA IMPRAC-TICAL AND COULD RAISE EXPECTATIONS WHICH COULD NOT BE MET.

6. AS MEETING DREW TO CLOSE AFTER THREE DAYS OF DESULTORY DISCUSSION, GROUP 77 EXPERTS MET ALMOST CONTINUOUSLY IN EFFORT PRODUCE DOCUMENT ON WHICH THEY COULD AGREE. AGREED DOCUMENT, LARGELY BASED ON PAKISTAN PROPOSAL, WAS SUB-MITTED DURING FINAL HOUR OF MEETING. IT WAS ANNEXED TO MEETING REPORT FOR CONSIDERATION AT NEXT SESSION AD HOC GROUP. DOCUMENT CONTAINS NOTHING NEW OR UNEXPECTED. IT URGES OBJECTIVE CRITERIA TO TRIGGER DEBT RENEGOTIATION.

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ALL DEBT (BILATERAL OFFICIAL AND PRIVATE, AND MULTILATERAL)
SHOULD BE INCLUDED IN SUCH RENEGOTIATIONS. COPY BEING
HAND-CARRIED BY LEE.

7. NEXT MEETING - EXPERTS AGREED CARRY OVER CURRENT
AGENDA TO NEXT MEETING IN DECEMBER. IN INTERIM, FOLLOW-
ING STUDIES WILL BE PREPARED.
A. OECD WILL COMPLETE REPORT ON GENERAL QUESTIONS OF DEBT.
B. IMF WILL UPDATE STUDY ON MULTILATERAL DEBT RENE-
GOTIATIONS.
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C. IMF WILL UPDATE STUDIES ON SHORT-TERM BANK CREDITS.
D. UNCTAD WILL COMPLEMENT (B) BY STUDYING EFFECTS OF
PAST RESCHEDULINGS ON INDIVIDUAL COUNTRY DEVELOPMENT.
E. UNCTAD WILL EXAMINE COSTS AND BENEFITS OF DIFFERENCT
TYPES OF CREDIT AVAILABLE TO LDCS.

8. COMMENT: CERTAIN MEMBERS OF GROUP 77 APPEAR DETERMINED TO PUSH
IDEA OF
GUIDELINES FOR DEBT RELIEF. THERE IS NO SIGN THAT GROUP 77
MEMBERS WHO WILL NOT BENEFIT, AND COULD BE HURT, BY SUCH
GUIDELINES WILL PUBLICLY OPPOSE AGREED GROUP 77 POSITION.

INFORMAL DISCUSSION WITHIN GROUP B SAW SOME AD-
VANTAGE IN HAVING TALKS AT OECD IN EFFORT TO DEVELOP PRIN-
CIPLES FOR DEBT RESCHEDULING FOR REVIEW WITHIN GROUP B
MEMBER GOVERNMENT FOR POSSIBLE USE AS FALLBACK POSITION
AT DECEMBER MEETING.DALE

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LESS DEVELOPED COUNTRIES, DEBTS, MEETINGS, GOVERNMENT DEBTS, CONSULTANTS
Control Number: n/a
Copy: SINGLE
Draft Date: 13 MAY 1974
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1974GENEVA02959
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D740117-0545
From: GENEVA
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1974/newtext/t19740554/aaaabvls.tel
Line Count: 256
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: garlanwa
Review Comment: n/a
Review Content Flags:
Review Date: 24 OCT 2002
Review Event:
Review Exemptions: n/a
Review History: RELEASED <24 OCT 2002 by garlanwa>; APPROVED <24-Oct-2002 by garlanwa>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UNCTAD MEETING OF GOVERNMENT EXPERTS ON LDC DEBT PROBLEMS, MAY 6-10
TAGS: EFIN, UNCTAD
To: STATE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

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